

**MEADE COUNTY SCHOOL DISTRICT**  
**BASIC FINANCIAL STATEMENTS,**  
**SUPPLEMENTARY INFORMATION,**  
**AND INDEPENDENT AUDITOR'S REPORTS**  
  
Year Ended June 30, 2005

**MEADE COUNTY SCHOOL DISTRICT**

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THEODORE C. STILES, CPA  
BENJAMIN E. CARTER, CPA  
JOHN R. ASHCRAFT, CPA  
J. SCOTT KISSELBAUGH, CPA  
BRIAN S. WOOSLEY, CPA  
CHRIS R. CARTER, CPA  
CHERYLE L. BEAUCHAMP, CPA  
J. ALTON PIKE, CPA



## STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

[www.stilescartercpas.com](http://www.stilescartercpas.com)

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### INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education  
Meade County School District  
Brandenburg, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Meade County School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 19, 2005, on our consideration of Meade County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 8, and the Budgetary Comparison Information on pages 35 through 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Meade County School District's basic financial statements. The combining financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 41 through 42 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stiles, Carter & Associates*

Certified Public Accountants  
October 19, 2005

## REQUIRED SUPPLEMENTARY INFORMATION

**MEADE COUNTY SCHOOL DISTRICT – BRANDENBURG, KENTUCKY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Meade County School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to review the School District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local governments* issued in June 1999.

**FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$10.5 million. This reflects a decrease in cash from 2004 of \$500 thousand. However, net assets increased by \$970 thousand. This is the result of cash being used to purchase capital assets such as land, buses, technology equipment and other general equipment.
- The District initiated the renovation of the Meade County Area Technology Center. This was financed by issuing \$1.75 million in bonds at an average interest rate of 2.95%. The District also began a renovation of Flaherty Elementary School and completed the Stuart Pepper Middle School renovation.
- The District's implementation of all day kindergarten resulted in increased instructional expenses approximating \$400 thousand.
- The General Fund had \$26.5 million in revenue for the year, including \$4.3 million of on-behalf payments made by the state for employees' health insurance and retirement. Of the \$26.5 million, 64.5% or \$17.1 million came from state SEEK payments. Total general fund revenue increased \$1.6 million from 2004. Excluding a \$700 thousand increase in on-behalf payments, general fund revenue increased 4.3%. The increase was primarily from property, motor vehicle and utility taxes and SEEK funds.
- Including the state on-behalf payments described in the previous bullet, general fund expenditures were \$27.2 million. As part of these expenditures, the District spent \$855 thousand on land. Excluding the land purchase and the \$700 thousand increase in on-behalf payments, expenditures increased 6.7% from 2004. This increase was primarily due to increased personnel and transportation costs.
- The District advance refunded the outstanding 1996 revenue bonds by issuing \$4.34 million in refunding revenue bonds at an average interest rate of 3.3%. This refunding resulted in a net present value savings of \$301 thousand.

**USING THIS ANNUAL REPORT**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 - 10 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform accounting system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The proprietary funds are our food service operation. The only fiduciary funds are agency funds. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 - 18 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 – 34 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$33.2 million as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.



**Net Assets for the periods ending June 30, 2005 and 2004  
(Table 1)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 12,502,675	\$ 11,237,921	\$ 205,966	\$ 205,645	\$ 12,708,641	\$ 11,443,566
Capital Assets	<u>32,489,635</u>	<u>32,246,129</u>	<u>214,460</u>	<u>241,710</u>	<u>32,704,095</u>	<u>32,487,839</u>
Total Assets	<u>44,992,310</u>	<u>43,484,050</u>	<u>420,426</u>	<u>447,355</u>	<u>45,412,736</u>	<u>43,931,405</u>
Long-term Debt	10,341,463	9,889,359	-	-	10,341,463	9,889,359
Other Liabilities	<u>1,861,779</u>	<u>1,808,819</u>	<u>2,023</u>	<u>11,682</u>	<u>1,863,802</u>	<u>1,820,501</u>
Total Liabilities	<u>12,203,242</u>	<u>11,698,178</u>	<u>2,023</u>	<u>11,682</u>	<u>12,205,265</u>	<u>11,709,860</u>
<b>Net Assets</b>						
Investment in capital assets (net of debt)	21,754,727	22,455,987	214,460	241,710	21,969,187	22,697,697
Restricted	4,014,465	1,045,693	-	-	4,014,465	1,045,693
Unrestricted	<u>7,019,876</u>	<u>8,284,192</u>	<u>203,943</u>	<u>193,963</u>	<u>7,223,819</u>	<u>8,478,155</u>
<b>Total Net Assets</b>	<u>\$ 32,789,068</u>	<u>\$ 31,785,872</u>	<u>\$ 418,403</u>	<u>\$ 435,673</u>	<u>\$ 33,207,471</u>	<u>\$ 32,221,545</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The District put into service \$4.3 million in capital assets and issued \$6.09 million in revenue bonds.

#### **Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2005, net of interfund transfers and bond proceeds, were \$32.2 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$5.8 million more than budget or approximately 28%. The variance is primarily explained by unbudgeted on-behalf payments made by the State of Kentucky in the amount of \$4.3 million and revenue over budget in taxes.
- The total cost of all programs and services was \$33.9 million including debt service.
- General fund budget expenditures to actual varied significantly in Instruction, Student Support, Facilities Acquisition, and Other non-instruction. This resulted from the District not budgeting on-behalf payments made by the State of Kentucky as instructed by the Department of Education and not having to spend budgeted contingency funds.

The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2005 and 2004.

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>REVENUES:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 11,492	\$ 14,746	\$ 784,986	\$ 747,395	\$ 796,478	\$ 762,141
Operating grants and contributions	4,668,000	4,717,195	1,091,568	970,681	5,759,568	5,687,876
Capital grants and contributions	110,509	120,447	-	-	110,509	120,447
<b>General revenues:</b>						
Property taxes	3,950,710	3,672,931	-	-	3,950,710	3,672,931
Motor vehicle taxes	779,798	651,685	-	-	779,798	651,685
Utility taxes	838,540	770,329	-	-	838,540	770,329
Other taxes	12,177	19,737	-	-	12,177	19,737
Investment earnings	212,562	182,905	2,693	2,927	215,255	185,832
State and formula grants	21,376,112	20,293,834	-	-	21,376,112	20,293,834
Gain (loss) on asset disposal	19,339	(802)	-	-	19,339	(802)
Miscellaneous	216,107	30,935	-	-	216,107	30,935
<b>Total revenues</b>	<u>32,195,346</u>	<u>30,473,942</u>	<u>1,879,247</u>	<u>1,721,003</u>	<u>34,074,593</u>	<u>32,194,945</u>
<b>EXPENSES:</b>						
<b>Program Activities:</b>						
Instruction	19,884,979	19,158,975	-	-	19,884,979	19,158,975
Student support	1,308,250	918,113	-	-	1,308,250	918,113
Instructional staff support	1,693,440	927,860	-	-	1,693,440	927,860
District administrative support	729,820	650,265	-	-	729,820	650,265
School administrative support	1,620,575	1,608,552	-	-	1,620,575	1,608,552
Business support	458,248	564,970	-	-	458,248	564,970
Plant operation and maintenance	2,880,438	2,290,755	-	-	2,880,438	2,290,755
Student transportation	1,792,054	1,590,815	-	-	1,792,054	1,590,815
Central office support	-	57	-	-	-	57
Facilities acquisition	67,785	115,347	-	-	67,785	115,347
Community service activities	319,432	309,511	-	-	319,432	309,511
Other	3,475	34,915	-	-	3,475	34,915
Interest costs	433,654	430,294	-	-	433,654	430,294
<b>Business-type Activities:</b>						
Food service	-	-	1,896,517	1,798,180	1,896,517	1,798,180
<b>Total expenses</b>	<u>31,192,150</u>	<u>28,600,429</u>	<u>1,896,517</u>	<u>1,798,180</u>	<u>33,088,667</u>	<u>30,398,609</u>
Increase (decrease) in net assets	<u>\$ 1,003,196</u>	<u>\$ 1,873,513</u>	<u>\$ (17,270)</u>	<u>\$ (77,177)</u>	<u>\$ 985,926</u>	<u>\$ 1,796,336</u>

### Governmental Activities

Instruction comprises 64% of governmental program expenses. Support services expenses make up 33% of government expenses. The remaining expense for facility acquisition, community service activities, other expense and interest account for the remaining 3% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**(Table 3)**  
**Governmental Activities Total**  
**Cost of Services**

	<b>Cost of Services</b>		<b>Net Cost of Services</b>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Instruction	\$ 19,884,879	\$ 19,158,975	\$ 16,131,131	\$ 15,270,059
Support Services	10,482,925	8,551,387	9,883,796	8,345,561
Community Services	319,432	309,511	(5,695)	292
Other	3,475	34,915	1,987	(293,065)
Facilities acquisition	67,785	115,347	67,785	115,347
Interest costs	<u>433,654</u>	<u>430,294</u>	<u>323,145</u>	<u>309,847</u>
<b>Total expenses</b>	<u><u>\$ 31,192,150</u></u>	<u><u>\$ 28,600,429</u></u>	<u><u>\$ 26,402,149</u></u>	<u><u>\$ 23,748,041</u></u>

### **Business-Type Activities**

The business-type activities include the food service operation. This program had total revenue of \$1,879,247 and expenses of \$1,896,517 for fiscal year 2005. Of the revenues, \$784,986 was charges for services, \$1,091,568 was from State and Federal grants and \$2,693 was from investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

### **The School District's Funds**

Information about the School District's major funds starts on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$39,775,217 and expenditures and other financing uses of \$38,189,060. Net changes in fund balances for the year were most significant in General Fund \$(769,562), and Construction Fund \$1,768,785.

The decrease in General Fund was due to land purchased. The increase in Construction Fund was due to the unspent bond proceeds.

### **General Fund-Budget Highlights**

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at \$20,576,936 with actual amounts of \$26,400,925. Budgeted expenditures of \$29,426,620 compare with actual expenditures of \$27,166,029. The most significant fluctuation is for on-behalf payments of \$4,263,181. If on-behalf payments were not included in revenues, revenues would be \$22,137,744, which is \$1,560,808 over budget. If on-behalf payments were not included in expenditures, expenditures would be \$22,902,848, which is \$6,523,772 under budget.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

At the end of fiscal year 2005 the School District had \$32.7 million invested in land, buildings, equipment, and construction in progress, and \$32.5 million in governmental activities. Table 4 shows fiscal year 2005 and 2004 balances.

**(Table 4)**  
**Capital Assets at June 30, 2005 and 2004**  
**(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 1,257,045	\$ 401,993	\$ -	\$ -	\$ 1,257,045	\$ 401,993
Land improvements	793,213	859,377	-	-	793,213	859,377
Buildings and improvements	28,077,636	26,047,191	-	-	28,077,636	26,047,191
Technology	524,525	532,988	8,472	10,769	532,997	543,757
Vehicles	1,390,742	1,358,514	-	-	1,390,742	1,358,514
General equipment	268,872	281,960	205,988	230,941	474,860	512,901
Total	32,312,033	29,482,023	214,460	241,710	32,526,493	29,723,733
Construction in progress	177,602	2,764,106	-	-	177,602	2,764,106
Total	<u>\$ 32,489,635</u>	<u>\$32,246,129</u>	<u>\$ 214,460</u>	<u>\$ 241,710</u>	<u>\$ 32,704,095</u>	<u>\$32,487,839</u>

Table 5 shows changes in capital assets for the years ended June 30, 2005 and 2004.

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Beginning balance	\$ 32,246,129	\$30,824,435	\$ 241,710	\$ 282,306	\$ 32,487,839	\$31,106,741
Additions	4,469,143	2,887,718	23,753	13,915	4,492,896	2,901,633
Retirements	(2,768,828)	(3,963)	-	-	(2,768,828)	(3,963)
Depreciation	(1,456,809)	(1,462,061)	(51,003)	(54,511)	(1,507,812)	(1,516,572)
Ending balance	<u>\$ 32,489,635</u>	<u>\$32,246,129</u>	<u>\$ 214,460</u>	<u>\$ 241,710</u>	<u>\$ 32,704,095</u>	<u>\$32,487,839</u>

Construction began on the renovation of the Meade County Area Technology Center and Flaherty Elementary School. These unfinished project costs are in construction in progress at June 30, 2005. Construction was completed on the Stuart Pepper Middle School renovation.

## Debt

At June 30, 2005, the School District had \$11,145,000 in bonds outstanding, of this amount \$1,239,664 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$1,185,000 is due within one year.

## District Challenges for the Future

Meade County School District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent. The District has been required to provide financial support for unfunded mandates imposed by the state and federal government.

Meade County Schools will continue to use careful planning and monitoring of finances to provide a quality education for students and a secure financial future for the school district.

## Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Susan Fackler, CPA, Finance Officer, 1155 Old Ekron Road, Brandenburg, Kentucky, 40108, (270) 422-7500.

## **BASIC FINANCIAL STATEMENTS**

**MEADE COUNTY SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS**

June 30, 2005

<b>Assets</b>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
<b><u>Current Assets</u></b>			
Cash and cash equivalents	\$ 10,355,351	\$ 102,056	\$ 10,457,407
Inventory		34,024	34,024
Accounts receivable:			
Taxes-current	182,190		182,190
Taxes-delinquent	13,511		13,511
Accounts receivable	44,609		44,609
Intergovernmental-State	312		312
Intergovernmental-Indirect Federal	188,702	69,886	258,588
Bond proceeds receivable	1,718,000		1,718,000
<b>Total Current Assets</b>	<b>12,502,675</b>	<b>205,966</b>	<b>12,708,641</b>
<b><u>Noncurrent Assets</u></b>			
Capital assets	47,381,920	980,689	48,362,609
Less: accumulated depreciation	(14,892,285)	(766,229)	(15,658,514)
<b>Total Noncurrent Assets</b>	<b>32,489,635</b>	<b>214,460</b>	<b>32,704,095</b>
<b>Total Assets</b>	<b>44,992,310</b>	<b>420,426</b>	<b>45,412,736</b>
<b>Liabilities</b>			
<b><u>Current Liabilities</u></b>			
Accounts payable	216,434	2,023	218,457
Accrued payroll and related expenses	56,448		56,448
Deferred revenue	120,795		120,795
Current portion of bond obligations	1,185,000		1,185,000
Current portion of capital lease obligations	28,398		28,398
Current portion of accrued sick leave	120,000		120,000
Interest payable	134,704		134,704
<b>Total Current Liabilities</b>	<b>1,861,779</b>	<b>2,023</b>	<b>1,863,802</b>
<b><u>Noncurrent Liabilities</u></b>			
Noncurrent portion of bond obligations	9,960,000		9,960,000
Less: Unamortized discount and expense	(169,925)		(169,925)
Less: Deferred amount on refundings	(314,444)		(314,444)
Noncurrent portion of capital lease obligations	45,879		45,879
Noncurrent portion of accrued sick leave	819,953		819,953
<b>Total Noncurrent Liabilities</b>	<b>10,341,463</b>	<b>-</b>	<b>10,341,463</b>
<b>Total Liabilities</b>	<b>12,203,242</b>	<b>2,023</b>	<b>12,205,265</b>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	21,754,727	214,460	21,969,187
Restricted for:			
Capital projects	3,853,585		3,853,585
Debt service	160,880		160,880
Unrestricted	7,019,876	203,943	7,223,819
<b>Total Net Assets</b>	<b>\$ 32,789,068</b>	<b>\$ 418,403</b>	<b>\$ 33,207,471</b>

See accompanying notes to financial statements.

**MEADE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2005

**FUNCTIONS/PROGRAMS**

**Governmental Activities:**

Instruction  
Support services:  
Student  
Instruction staff  
District administrative  
School administrative  
Business  
Plant operation and maintenance  
Student transportation  
Facilities acquisition and construction  
Community service activities  
Other  
Interest on long-term debt

**Total Governmental Activities**

**Business-Type Activities:**

Food service

**Total Business-Type Activities**

**Total Primary Government**

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
	\$ 11,492	\$ 3,712,126	\$ -	\$ (16,161,361)	\$ -	\$ (16,161,361)
Expenses						
\$ 19,884,979						
1,308,250		41,051		(1,267,199)		(1,267,199)
1,693,440		475,409		(1,218,031)		(1,218,031)
729,820				(729,820)		(729,820)
1,620,575				(1,620,575)		(1,620,575)
458,248				(458,248)		(458,248)
2,880,438		17,000		(2,863,438)		(2,863,438)
1,792,054		95,799		(1,696,255)		(1,696,255)
67,785				(67,785)		(67,785)
319,432		325,127		5,695		5,695
3,475		1,488		(1,987)		(1,987)
433,654			110,509	(323,145)		(323,145)
31,192,150	11,492	4,668,000	110,509	(26,402,149)	-	(26,402,149)
<b>Total Governmental Activities</b>						
1,896,517	784,986	1,091,568			(19,963)	(19,963)
1,896,517	784,986	1,091,568	-	-	(19,963)	(19,963)
\$ 33,088,667	\$ 796,478	\$ 5,759,568	\$ 110,509	(26,402,149)	(19,963)	(26,422,112)
<b>General Revenues:</b>						
Taxes:						
				3,950,710		3,950,710
				779,798		779,798
				838,540		838,540
				12,177		12,177
				212,562	2,693	215,255
				21,376,112		21,376,112
				19,339		19,339
				216,107		216,107
				27,405,345	2,693	27,408,038
				1,003,196	(17,270)	985,926
				31,785,872	435,673	32,221,545
				\$ 32,789,068	\$ 418,403	\$ 33,207,471

## FUND FINANCIAL STATEMENTS



MEADE COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Special Revenue Fund	FSPK Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets and Resources:</b>						
Cash and cash equivalents	\$ 8,131,476	\$ -	\$ 1,484,670	\$ 277,272	\$ 534,523	\$ 10,427,941
Accounts receivable:						
Taxes - current	182,190					182,190
Taxes - delinquent	13,511					13,511
Accounts receivable		44,609				44,609
Intergovernmental - State	312					312
Intergovernmental - Indirect Federal	11,665	177,037				188,702
Bond proceeds receivable				1,718,000		1,718,000
<b>Total Assets and Resources</b>	<u>\$ 8,339,154</u>	<u>\$ 221,646</u>	<u>\$ 1,484,670</u>	<u>\$ 1,995,272</u>	<u>\$ 534,523</u>	<u>\$ 12,575,265</u>
<b>Liabilities and Fund Balances:</b>						
<b>Liabilities</b>						
Accounts payable	\$ 189,003	\$ 27,431	\$ -	\$ -	\$ -	\$ 216,434
Cash overdraft		72,590				72,590
Accrued payroll and related expenses	56,448					56,448
Current portion of accumulated sick leave	17,977					17,977
Deferred revenue		120,795				120,795
<b>Total Liabilities</b>	<u>263,428</u>	<u>220,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>484,244</u>
<b>Fund Balances</b>						
Reserved for:						
Encumbrances	7,115					7,115
Debt service					160,880	160,880
SFCC escrow			1,484,670		373,643	1,858,313
Construction				1,995,272		1,995,272
Unreserved:						
Undesignated, reported in:						
General fund	8,068,611					8,068,611
Special revenue funds		830				830
<b>Total Fund Balances</b>	<u>8,075,726</u>	<u>830</u>	<u>1,484,670</u>	<u>1,995,272</u>	<u>534,523</u>	<u>12,091,021</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 8,339,154</u>	<u>\$ 221,646</u>	<u>\$ 1,484,670</u>	<u>\$ 1,995,272</u>	<u>\$ 534,523</u>	<u>\$ 12,575,265</u>

See accompanying notes to financial statements.

## MEADE COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance per fund financial statements	\$ 12,091,021
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	32,489,635
Certain liabilities (such as bonds and capital leases, certain payables, accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(11,791,588)</u>
Net assets for governmental activities	<u><u>\$ 32,789,068</u></u>

See accompanying notes to financial statements.

**MEADE COUNTY SCHOOL DISTRICT**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
**GOVERNMENTAL FUNDS**

Year Ended June 30, 2005

	General Fund	Special Revenue Fund	FSPK Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
From local sources:						
Taxes:						
Property	\$ 2,967,270	\$ -	\$ 983,440	\$ -	\$ -	\$ 3,950,710
Motor vehicle	779,798					779,798
Utilities	838,540					838,540
Other taxes	12,177					12,177
Earnings on investments	198,429	830		2,161	11,142	212,562
Other local revenues	196,027	91,812				287,839
Intergovernmental - State	21,376,112	1,366,214	760,625		537,049	24,040,000
Intergovernmental - Indirect Federal	32,572	2,021,810				2,054,382
<b>Total Revenues</b>	<b>26,400,925</b>	<b>3,480,666</b>	<b>1,744,065</b>	<b>2,161</b>	<b>548,191</b>	<b>32,176,008</b>
<b>Expenditures:</b>						
Instruction	16,351,429	2,692,046				19,043,475
Support services:						
Student	1,265,759	41,051				1,306,810
Instruction staff	1,202,150	475,409				1,677,559
District administrative	787,546					787,546
School administrative	1,617,158					1,617,158
Business	457,858					457,858
Plant operation and maintenance	2,874,090	17,000				2,891,090
Student transportation	1,718,965	95,799				1,814,764
Facilities acquisition and construction	889,690			312,734		1,202,424
Community service activities		325,127				325,127
Other non-instruction	1,384	1,488	350	253		3,475
Bond issue costs				23,509	44,989	68,498
Debt service:						
Principal					775,000	775,000
Interest					429,627	429,627
<b>Total Expenditures</b>	<b>27,166,029</b>	<b>3,647,920</b>	<b>350</b>	<b>336,496</b>	<b>1,249,616</b>	<b>32,400,411</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>(765,104)</b>	<b>(167,254)</b>	<b>1,743,715</b>	<b>(334,335)</b>	<b>(701,425)</b>	<b>(224,403)</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from sale of bonds				1,750,000		1,750,000
Proceeds from sale of refunding bonds					4,340,000	4,340,000
Bond discount				(8,491)	(53,911)	(62,402)
Payments to bond escrow agent					(4,241,100)	(4,241,100)
Proceeds from sale of fixed assets	24,062					24,062
Operating transfers in		28,520	9,662	361,611	1,085,354	1,485,147
Operating transfers out	(28,520)		(1,310,354)		(146,273)	(1,485,147)
<b>Total Other Financing Sources (Uses)</b>	<b>(4,458)</b>	<b>28,520</b>	<b>(1,300,692)</b>	<b>2,103,120</b>	<b>984,070</b>	<b>1,810,560</b>
<b>Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses</b>	<b>(769,562)</b>	<b>(138,734)</b>	<b>443,023</b>	<b>1,768,785</b>	<b>282,645</b>	<b>1,586,157</b>
<b>Fund Balance, July 1, 2004</b>	<b>8,845,288</b>	<b>139,564</b>	<b>1,041,647</b>	<b>226,487</b>	<b>251,878</b>	<b>10,504,864</b>
<b>Fund Balance, June 30, 2005</b>	<b>\$ 8,075,726</b>	<b>\$ 830</b>	<b>\$ 1,484,670</b>	<b>\$ 1,995,272</b>	<b>\$ 534,523</b>	<b>\$ 12,091,021</b>

See accompanying notes to financial statements.

## MEADE COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in total fund balances per fund financial statements	\$ 1,586,157
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	248,228
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(1,718,000)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	804,743
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(4,723)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>86,791</u>
Change in net assets of governmental activities	<u><u>\$ 1,003,196</u></u>

See accompanying notes to financial statements.

**MEADE COUNTY SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

June 30, 2005

	Food Service Fund
<b>Assets</b>	
<b><u>Current Assets</u></b>	
Cash and cash equivalents	\$ 102,056
Inventory	34,024
Accounts receivable:	
Intergovernmental - Indirect Federal	69,886
<b>Total Current Assets</b>	<u>205,966</u>
<b><u>Noncurrent Assets</u></b>	
Capital assets	980,689
Less: accumulated depreciation	<u>(766,229)</u>
<b>Total Noncurrent Assets</b>	<u>214,460</u>
<b>Total Assets</b>	<u>420,426</u>
<b>Liabilities</b>	
<b><u>Current Liabilities</u></b>	
Accounts payable	<u>2,023</u>
<b>Total Current Liabilities</b>	<u>2,023</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	214,460
Unrestricted	<u>203,943</u>
<b>Total Net Assets</b>	<u><u>\$ 418,403</u></u>

See accompanying notes to financial statements.

**MEADE COUNTY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

**PROPRIETARY FUNDS**

Year Ended June 30, 2005

	Food Service Fund
<b>Operating Revenues:</b>	
Lunchroom sales	<u>\$ 784,986</u>
<b>Total Operating Revenues</b>	784,986
<b>Operating Expenses:</b>	
Salaries and wages	732,259
Materials and supplies	1,035,504
Depreciation	51,003
Other operating expenses	<u>77,751</u>
<b>Total Operating Expenses</b>	<u>1,896,517</u>
Operating loss	(1,111,531)
<b>Non-Operating Revenues (Expenses):</b>	
Federal grants	959,440
Donated commodities	104,704
State grants	27,424
Interest income	<u>2,693</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>1,094,261</u>
Changes in net assets	(17,270)
<b>Net Assets, July 1, 2004</b>	<u>435,673</u>
<b>Net Assets, June 30, 2005</b>	<u><u>\$ 418,403</u></u>

See accompanying notes to financial statements.

**MEADE COUNTY SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

Year Ended June 30, 2005

	<u>Food Service Fund</u>
<b>Cash Flows from Operating Activities</b>	
Cash received from:	
Lunchroom sales	\$ 784,986
Cash paid to/for:	
Employees	732,259
Supplies	944,742
Other activities	<u>77,751</u>
<b>Net Cash Used by Operating Activities</b>	(969,766)
<b>Cash flows from Non-Capital and Related Financing Activities</b>	
Federal grants	985,061
State grants	<u>27,424</u>
<b>Net Cash Provided by Non-Capital and Related Financing Activities</b>	1,012,485
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchases of capital assets	(23,753)
<b>Cash Flows from Investing Activities</b>	
Receipt of interest income	<u>2,693</u>
Net increase in cash and cash equivalents	21,659
<b>Balances, beginning of year</b>	<u>80,397</u>
<b>Balances, end of year</b>	<u><u>\$ 102,056</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,111,531)
Adjustments to reconcile operating loss to net cash (used) by operating activities:	
Depreciation	51,003
Donated commodities	104,704
Change in assets and liabilities:	
Inventory	(4,283)
Accounts payable	<u>(9,659)</u>
<b>Net cash used by operating activities</b>	<u><u>\$ (969,766)</u></u>
<b>Schedule of non-cash transactions:</b>	
Donated commodities received from federal government	<u><u>\$ 104,704</u></u>

See accompanying notes to financial statements.

**MEADE COUNTY SCHOOL DISTRICT**

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2005

	Agency Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 242,103
Accounts receivable	<u>556</u>
<b>Total Assets</b>	<u><u>\$ 242,659</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 13,422
Due to student groups	<u>229,237</u>
<b>Total Liabilities</b>	<u><u>\$ 242,659</u></u>



## NOTES TO THE BASIC FINANCIAL STATEMENTS

## MEADE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Reporting Entity

The Meade County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Meade County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Meade County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization is included in the accompanying financial statements:

Meade County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Meade County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

## **MEADE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2005

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

##### Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**Government-wide Financial Statements** – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases and decreases in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are also reported using the economic resources measurement focus.

## MEADE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 41 through 42. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
  - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

## MEADE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

III. Fiduciary Fund Type (Agency Fund)

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

#### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues — Exchange and Non-exchange Transactions — Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

## MEADE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

##### Property Taxes

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 received a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2005, to finance operations were \$.459 per \$100 valuation for real property, \$.468 per \$100 valuation for business personal property and \$.546 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

##### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

## MEADE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

#### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

#### Budgetary Process

**Budgetary Basis of Accounting:** The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

## **MEADE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2005

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

##### Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005.

##### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

##### Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

##### Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

##### Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

##### Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.



## **MEADE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2005

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

##### Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for debt service, construction and School Facilities Construction Commission (SFCC) offers.

##### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

##### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

##### Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

##### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

## **MEADE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2005

#### **NOTE B – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### **NOTE C – CASH AND CASH EQUIVALENTS**

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2005, \$60,880 of the District's bank balance of \$12,304,725 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 60,880</u>
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# MEADE COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

### NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

Governmental Activities	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Non-Depreciable Assets:				
Land	\$ 401,993	\$ 855,052	\$ -	\$ 1,257,045
Construction in progress	2,764,106	177,602	(2,764,106)	177,602
Depreciable Assets:				
Land improvements	2,319,969	28,520		2,348,489
Buildings and improvements	34,886,130	2,894,766		37,780,896
Technology equipment	2,644,562	184,962	(839,150)	1,990,374
Vehicles	3,080,708	285,290	(188,480)	3,177,518
General equipment	612,745	42,951	(5,700)	649,996
Totals at historical cost	46,710,213	4,469,143	(3,797,436)	47,381,920
Accumulated depreciation:				
Land improvements	1,460,592	94,684		1,555,276
Buildings and improvements	8,838,939	864,321		9,703,260
Technology equipment	2,111,574	190,873	(836,598)	1,465,849
Vehicles	1,722,194	253,062	(188,480)	1,786,776
General equipment	330,785	53,869	(3,530)	381,124
Total accumulated depreciation	14,464,084	1,456,809	(1,028,608)	14,892,285
Government Activities Capital Assets - Net	<u>\$ 32,246,129</u>	<u>\$ 3,012,334</u>	<u>\$ (2,768,828)</u>	<u>\$ 32,489,635</u>
Business-Type Activities				
Technology equipment	\$ 14,660	\$ -	\$ (3,765)	\$ 10,895
Food service equipment	946,041	23,753		969,794
Totals at historical cost	960,701	23,753	(3,765)	980,689
Accumulated depreciation:				
Technology equipment	3,891	2,297	(3,765)	2,423
Food service equipment	715,100	48,706		763,806
Total accumulated depreciation	718,991	51,003	(3,765)	766,229
Business-Type Activities Capital Assets - Net	<u>\$ 241,710</u>	<u>\$ (27,250)</u>	<u>\$ -</u>	<u>\$ 214,460</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 1,122,331			
Student support	1,441			
Instructional staff	15,881			
District administration	33,094			
School administration	3,417			
Business support	390			
Plant	16,004			
Transportation	262,579			
Community services	1,672			
	<u>\$ 1,456,809</u>			

## MEADE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

#### NOTE E – LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1993	\$ 1,200,000	3.00% - 5.90%
1997	3,330,000	4.50% - 4.625%
2001 Refunding	775,000	3.50% - 4.00%
2002	845,000	2.70% - 4.90%
2002 Refunding	1,645,000	1.35% - 3.75%
2003	1,000,000	1.00% - 2.00%
2005	1,750,000	2.80% - 3.00%
2005 Refunding	4,340,000	3.00% - 3.80%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Meade County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

On January 1, 2005, the District issued \$4,340,000 in Refunding Revenue Bonds with an average interest rate of 3.3 percent to advance refund \$4,005,000 of outstanding 1996 Series Bonds with an average interest rate of 5.6 percent. The net proceeds of \$4,252,165 (after payment of \$98,900 in underwriting fees, discount, and other issuance costs and \$11,065 of accrued interest) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1996 Series bonds. As a result, that portion of the 1996 Series bonds is considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$4,005,000 at June 30, 2005.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$236,100. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2017 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 12 years by \$370,819 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$300,788.

On June 1, 2005, the District issued \$1,750,000 in revenue bonds to finance the renovation of the Meade County Area Technology Center. The bonds carry an average interest rate of 2.95% and mature beginning June 2006 through June 2010. A receivable was recorded at June 30, 2005 in the amount of \$1,718,000 (after payment of \$23,509 of issuance costs and \$8,491 of discount) that will be deposited in the Construction Fund.

# MEADE COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

### NOTE E – LONG-TERM OBLIGATIONS - CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2005-06	\$ 1,185,000	\$ 386,171	\$ 121,678	\$ 1,449,493
2006-07	1,225,000	347,921	120,992	1,451,929
2007-08	1,270,000	308,276	120,991	1,457,285
2008-09	1,100,000	265,339	120,992	1,244,347
2009-10	1,140,000	225,019	120,992	1,244,027
2011-15	3,405,000	699,073	571,257	3,532,816
2016-20	1,700,000	120,978	376,889	1,444,089
2021-22	<u>120,000</u>	<u>8,820</u>	<u>121,779</u>	<u>7,041</u>
	<u>\$ 11,145,000</u>	<u>\$ 2,361,597</u>	<u>\$ 1,675,570</u>	<u>\$ 11,831,027</u>

#### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liabilities for the year ended June 30, 2005, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$ 9,835,000	\$6,090,000	\$4,780,000	\$11,145,000	\$1,185,000
Accrued sick leave	<u>1,023,960</u>	<u>183,085</u>	<u>267,092</u>	<u>939,953</u>	<u>120,000</u>
Governmental Activities:					
Long-term liabilities	<u>\$10,858,960</u>	<u>\$6,273,050</u>	<u>\$5,047,092</u>	<u>\$12,084,953</u>	<u>\$1,305,000</u>

## MEADE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

#### NOTE E – LONG-TERM OBLIGATIONS - CONTINUED

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

#### NOTE F – CAPITAL LEASE PAYBLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2005</u>
Technology equipment	\$ 59,922
General equipment	8,586

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2005:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2006	\$ 31,044
2007	26,718
2008	16,324
2009	<u>6,860</u>
Total minimum lease payments	80,946
Less: Amount representing interest	<u>(6,669)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 74,277</u>

#### NOTE G – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 13.105% of the employee's gross earnings except for those District employees being paid from and participating in federally funded programs. During the year, contributions of \$1,920,550 were made by the State of Kentucky and \$145,391 in contributions were passed through the District's federally funded programs. Contributions by the employees are 9.855% of gross earnings and are withheld by the District. Such withholdings totaled \$1,553,594 during the year and were paid by the District to the State of Kentucky. The District has no other liability under the plan. The District's total payroll for all employees during the year was \$20,190,688, and \$15,764,522 of such amount related to employees covered by the retirement plan.

## **MEADE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2005

#### **NOTE G – RETIREMENT PLANS – CONTINUED**

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 8.48% of the employee's total compensation subject to contribution. The District's contribution requirement for CERS for the year ended June 30, 2005 was \$577,729, which consisted of \$359,969 from the District and \$217,760 from the employees. The total covered payroll for CERS during the year was \$4,236,001. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

#### **Deferred Compensation**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The Board therefore does not show these assets and liabilities on this financial statement.

#### **NOTE H – COMMITMENTS**

During the year ended June 30, 2005, the Board entered into construction contracts for the renovation of the Meade County Area Technology Center.

#### **NOTE I - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

#### **NOTE J - LITIGATION**

The District is subject to various disputes, legal proceedings and other claims which arise in the normal course of its operations. In the opinion of management, the amount of ultimate liability with respect to these activities will not be material to the District's financial condition.

## **MEADE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2005

#### **NOTE K - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which includes Workers' Compensation insurance.

#### **NOTE L - RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, fleet, property and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **NOTE M - DEFICIT OPERATING BALANCES**

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in a current year deficit of revenues over expenditures/expenses resulting in a corresponding reduction of fund balance/net assets:

General Fund	\$ 769,562
Special Revenue Fund	138,734
Debt Service Fund	7,284
Food Service Fund	17,270

#### **NOTE N - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).



## MEADE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

#### NOTE O - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 28,520
Operating	FSPK Fund	Construction	Construction	225,000
Operating	SEEK Capital Outlay	Construction	Construction	136,111
Operating	FSPK Fund	Debt Service	Debt Service	1,085,354
Operating	Debt Service	FSPK Fund	Close Bank Accounts	9,662

#### NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2005.

#### NOTE Q – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for insurance, retirement and other items. Total on-behalf payments for the year ended June 30, 2005, were \$4,263,131.

#### NOTE R – PRIOR PERIOD ADJUSTMENT

The District made a prior period adjustment to the cash balance of the debt service fund at June 30, 2004. The adjustment was to decrease cash and fund balance (also, net assets) by \$4,452. There was no effect on revenues or expenditures from this adjustment.

## REQUIRED SUPPLEMENTARY INFORMATION

# **MEADE COUNTY SCHOOL DISTRICT**

## **STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL**

### **GENERAL FUND**

Year Ended June 30, 2005

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
<b>Revenues:</b>			
From local sources:			
Taxes:			
Property	\$ 2,397,800	\$ 2,435,000	\$ 2,967,270
Motor vehicle	561,000	600,000	779,798
Utilities	700,000	750,000	838,540
Other taxes	12,000	12,000	12,177
Earnings on investments	125,000	125,000	198,429
Other local revenues			196,027
Intergovernmental - State	16,356,377	16,634,029	21,376,112
Intergovernmental - Indirect Federal		20,907	32,572
	<u>20,152,177</u>	<u>20,576,936</u>	<u>26,400,925</u>
<b>Total Revenues</b>			
	20,152,177	20,576,936	26,400,925
<b>Expenditures:</b>			
Instruction	13,621,917	13,757,076	16,351,429
Support services:			
Student	767,784	1,031,333	1,265,759
Instruction staff	709,417	1,176,963	1,202,150
District administrative	3,460,854	878,607	787,546
School administrative	1,367,548	1,314,969	1,617,158
Business	487,124	375,259	457,858
Plant operation and maintenance	2,439,133	2,722,057	2,874,090
Student transportation	1,748,400	1,750,901	1,718,965
Facilities acquisition and construction	1,050,000	3,332,729	889,690
Other non-instruction		3,086,726	1,384
	<u>25,652,177</u>	<u>29,426,620</u>	<u>27,166,029</u>
<b>Total Expenditures</b>			
	25,652,177	29,426,620	27,166,029
<b>Excess (Deficit) of Revenues over Expenditures</b>	(5,500,000)	(8,849,684)	(765,104)
<b>Other Financing Sources (Uses):</b>			
Proceeds from sale of fixed assets			24,062
Operating transfers out		(28,520)	(28,520)
	<u>-</u>	<u>(28,520)</u>	<u>(4,458)</u>
<b>Total Other Financing Sources (Uses)</b>			
	-	(28,520)	(4,458)
<b>Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>	(5,500,000)	(8,878,204)	(769,562)
<b>Fund Balance, July 1, 2004</b>	<u>5,500,000</u>	<u>8,878,204</u>	<u>8,845,288</u>
<b>Fund Balance, June 30, 2005</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,075,726</u>

### **EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES**

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$4,263,131.

# MEADE COUNTY SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL

### SPECIAL REVENUE FUND

Year Ended June 30, 2005

	Original	Final	Actual
<b>Revenues:</b>			
Earnings on investments	\$ -	\$ -	\$ 830
Other local revenues	84,973	82,000	91,812
Intergovernmental - State	1,163,726	1,463,088	1,366,214
Intergovernmental - Indirect Federal	1,937,787	1,990,350	2,021,810
<b>Total Revenues</b>	<b>3,186,486</b>	<b>3,535,438</b>	<b>3,480,666</b>
<b>Expenditures:</b>			
Instruction	2,677,103	2,763,637	2,692,046
Support services:			
Student	47,580	41,500	41,051
Instruction staff	93,924	329,869	475,409
Plant operation and maintenance	17,000	17,000	17,000
Student transportation	44,549	97,429	95,799
Community service activities	289,663	314,523	325,127
Other non-instruction	16,667		1,488
<b>Total Expenditures</b>	<b>3,186,486</b>	<b>3,563,958</b>	<b>3,647,920</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>-</b>	<b>(28,520)</b>	<b>(167,254)</b>
<b>Other Financing Sources (Uses):</b>			
Operating transfers in		28,520	28,520
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>28,520</b>	<b>28,520</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>	<b>-</b>	<b>-</b>	<b>(138,734)</b>
<b>Fund Balance, July 1, 2004</b>			<b>139,564</b>
<b>Fund Balance, June 30, 2005</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 830</b>

## **SUPPLEMENTARY INFORMATION**

**MEADE COUNTY SCHOOL DISTRICT****COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2005

	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Assets and Resources:</b>			
Cash and cash equivalents	\$ 373,643	\$ 160,880	\$ 534,523
<b>Total Assets and Resources</b>	<u>\$ 373,643</u>	<u>\$ 160,880</u>	<u>\$ 534,523</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>			
Reserved for:			
SFCC escrow	373,643		373,643
Debt service		160,880	160,880
<b>Total Fund Balances</b>	<u>373,643</u>	<u>160,880</u>	<u>534,523</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 373,643</u>	<u>\$ 160,880</u>	<u>\$ 534,523</u>

# MEADE COUNTY SCHOOL DISTRICT

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>			
From local sources:			
Earnings on investments	\$ -	\$ 11,142	\$ 11,142
Intergovernmental - State	426,540	110,509	537,049
<b>Total Revenues</b>	426,540	121,651	548,191
<b>Expenditures</b>			
Bond issuance costs		44,989	44,989
Debt service:			
Principal		775,000	775,000
Interest		429,627	429,627
<b>Total Expenditures</b>	-	1,249,616	1,249,616
<b>Excess (Deficit) of Revenues over Expenditures</b>	426,540	(1,127,965)	(701,425)
<b>Other Financing Sources (Uses)</b>			
Proceeds from sale of refunding bonds		4,340,000	4,340,000
Bond discount		(53,911)	(53,911)
Payments to bond escrow agent		(4,241,100)	(4,241,100)
Operating transfers in		1,085,354	1,085,354
Operating transfers out	(136,611)	(9,662)	(146,273)
<b>Total Other Financing Sources (Uses)</b>	(136,611)	1,120,681	984,070
<b>Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>	289,929	(7,284)	282,645
<b>Fund balance, July 1, 2004</b>	83,714	168,164	251,878
<b>Fund balance, June 30, 2005</b>	\$ 373,643	\$ 160,880	\$ 534,523

MEADE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2005

	Battletown Elementary	David T. Wilson Elementary	Ekron Elementary	Flaherty Elementary	James R. Allen Primary	Muldrough Elementary	Payneville Elementary	Stuart Pepper Middle	Meade County High School	Total Agency Fund
<b>Assets</b>										
Cash and cash equivalents	\$ 5,680	\$ 16,015	\$ 15,386	\$ 43,103	\$ 7,476	\$ 4,977	\$ 940	\$ 18,519	\$ 130,007	\$ 242,103
Accounts receivable			383	106		67		-	-	556
<b>Total Assets</b>	<u>\$ 5,680</u>	<u>\$ 16,015</u>	<u>\$ 15,769</u>	<u>\$ 43,209</u>	<u>\$ 7,476</u>	<u>\$ 5,044</u>	<u>\$ 940</u>	<u>\$ 18,519</u>	<u>\$ 130,007</u>	<u>\$ 242,659</u>
<b>Liabilities</b>										
Accounts payable	\$ -	\$ 111	\$ 344	\$ -	\$ 86	\$ -	\$ -	\$ 8,655	\$ 4,226	\$ 13,422
Due to student groups	5,680	15,904	15,425	43,209	7,390	5,044	940	9,864	125,781	229,237
<b>Total Liabilities</b>	<u>\$ 5,680</u>	<u>\$ 16,015</u>	<u>\$ 15,769</u>	<u>\$ 43,209</u>	<u>\$ 7,476</u>	<u>\$ 5,044</u>	<u>\$ 940</u>	<u>\$ 18,519</u>	<u>\$ 130,007</u>	<u>\$ 242,659</u>



MEADE COUNTY SCHOOL DISTRICT  
MEADE COUNTY HIGH SCHOOL ACTIVITY FUNDS  
YEAR ENDED JUNE 30, 2005

	CASH BALANCES July 1, 2004	RECEIPTS	DISBURSEMENTS	CASH BALANCES June 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS June 30, 2005
Archery	\$ 358	\$ 7,931	\$ 7,188	\$ 1,101	\$ -	\$ -	\$ 1,101
Athletic	12,639	103,117	115,432	324	-	2,212	(1,888)
Attendance	20	-	-	20	-	-	20
Band	6,044	77,436	83,480	-	-	-	-
Baseball	4,848	4,720	7,237	2,331	-	-	2,331
Book Store	339	677	500	516	-	-	516
Boy's Basketball	6,356	18,686	16,667	8,375	-	-	8,375
Cheerleaders	1,467	14,877	15,915	429	-	-	429
Chess	80	-	-	80	-	-	80
Chorus	8,082	41,098	38,414	10,766	-	-	10,766
Class of 2004	-	-	-	-	-	-	-
Class of 2005	500	-	500	-	-	-	-
Counselors	1,590	4,967	5,232	1,325	-	-	1,325
Credit Retrieval	603	450	30	1,023	-	-	1,023
Dance	-	7,245	5,725	1,520	-	-	1,520
Drama	3,382	2,616	1,365	4,633	-	-	4,633
Family/Consumer Science	871	1,104	1,661	314	-	-	314
FBLA	674	22,013	20,919	1,768	-	-	1,768
FCA	1,282	1,533	2,305	510	-	-	510
FCCLA	2,714	7,840	10,204	350	-	-	350
FFA	2,971	25,336	25,452	2,855	-	223	2,632
Football	6,629	24,198	21,302	9,525	-	-	9,525
General	6,764	14,140	16,369	4,535	-	324	4,211
Girl's Basketball	4,835	12,049	14,092	2,792	-	-	2,792
Golf	3,578	7,375	5,377	5,576	-	-	5,576
Greenhouse	5,672	2,659	2,409	5,922	-	-	5,922
Intramural	-	1,225	1,225	-	-	-	-
Library	1,053	1,609	2,112	550	-	-	550
Machine Fund	4,595	6,310	5,591	5,314	-	-	5,314
Majestic Memories	6	-	-	6	-	-	6
Mathematics	425	412	704	133	-	-	133
National Honor Society	2,028	8,437	8,740	1,725	-	-	1,725
Newspaper (Journalism)	1,436	10	773	673	-	-	673
Otaku Club	126	110	236	-	-	-	-
Parking Fund	1,051	1,533	2,293	291	-	-	291
PEP Club	1,573	4,642	4,575	1,640	-	-	1,640
Poetry	29	240	186	83	-	-	83
Prom	2,302	15,391	14,956	2,737	-	-	2,737
Rodeo	138	435	383	190	-	-	190
SADD	575	2,059	2,475	159	-	-	159
SADD2	7,268	-	361	6,907	-	-	6,907
Science Club	342	135	50	427	-	-	427
Soccer	3,061	7,671	9,510	1,222	-	550	672
Softball	1,187	11,337	11,005	1,519	-	99	1,420
Spanish	222	584	617	189	-	-	189
Splash	1,258	102	7	1,353	-	-	1,353
Student Government	848	6,052	5,867	1,033	-	-	1,033
Swim	-	8,584	7,107	1,477	-	-	1,477
Technology Club	1,117	4,509	3,963	1,663	-	609	1,054
Technology Education	215	566	703	78	-	-	78
Tennis	2	600	563	39	-	-	39
Textbook Rental	4,140	49,547	50,067	3,620	-	-	3,620
Tidal Wave Bank	250	517	517	250	-	-	250
Track/Cross Country	4,502	6,137	8,284	2,355	-	209	2,146
Tri-M	954	1,490	1,261	1,183	-	-	1,183
Volleyball	283	2,249	1,879	653	-	-	653
Y-Club	378	7,887	7,748	517	-	-	517
Yearbook	9,435	26,585	14,218	21,802	-	-	21,802
Youth For Unity	697	-	-	697	-	-	697
Youth in Charge	2,871	5,351	5,290	2,932	-	-	2,932
<b>TOTAL</b>	<b>\$ 136,665</b>	<b>\$ 584,383</b>	<b>\$ 591,041</b>	<b>\$ 130,007</b>	<b>\$ -</b>	<b>\$ 4,226</b>	<b>\$ 125,781</b>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

# **MEADE COUNTY SCHOOL DISTRICT**

## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
National School Lunch	10.555	575-04-02	\$ 97,973
		575-05-02	575,345
School Breakfast	10.553	576-04-05	46,866
		576-05-05	160,308
Summer Feeding Program	10.559	569-04-24	3,609
		569-05-24	1,342
Passed Through State Dept. of Agriculture			
Food Distribution (In-Kind Commodities)	10.555	N/A	104,704
TOTAL U.S. DEPT. OF AGRICULTURE			<u>990,147</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I	84.010 *	3104	181,508
		3105	502,902
Title I - Migrant	84.011	3114	10,819
		3115	9,212
Title IIC	84.048	3484	2,425
		3484A	1,611
		3485	31,040
IDEA - Part B	84.027	3374	61,489
		3375	789,903
IDEA - Part B - Preschool	84.173	3434	23,619
		3435	33,223
Title IV	84.186	4064	566
		4065	25,157
Title V	84.298	3345	23,644
Teacher Quality	84.367A *	4015	239,675
Title II D	84.318X	4253	195
		4255	18,532

\* Denotes major federal program  
The accompanying notes are an integral part of this schedule.

**MEADE COUNTY SCHOOL DISTRICT****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED**

YEAR ENDED JUNE 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Passed Through Cabinet for Workforce Development: Community Based Work Transition	84.126A	3713	174
Passed Through University of Kentucky:			
School to Work	84.278	3794G 3795G	4,976 65,030
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,025,700</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,015,847</u>

\* Denotes major federal program  
The accompanying notes are an integral part of this schedule.

## **MEADE COUNTY SCHOOL DISTRICT**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2005

#### **NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Meade County School District and is presented on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### **NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**MEADE COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2005**

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**Section I-Summary of Auditor's Results**

---

**Financial Statements**

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_\_\_\_Xno
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_yes \_\_\_\_\_Xnone reported

Noncompliance material to financial statements noted? \_\_\_\_\_yes \_\_\_\_\_Xno

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_\_\_\_Xno
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_yes \_\_\_\_\_Xnone reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_yes \_\_\_\_\_Xno

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010  
84.367A

Title I  
Teacher Quality

Dollar threshold used to distinguish  
Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_Xyes \_\_\_\_\_no

**Section I-Summary of Auditor's Results**

---

**Section II – Financial Statement of Findings**

---

No matters were reported.

---

**Section III – Federal Award Findings and Questioned Costs**

---

No matters were reported.



## **SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**MEADE COUNTY SCHOOL DISTRICT**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

June 30, 2005

There were no prior year audit findings.

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

THEODORE C. STILES, CPA  
BENJAMIN E. CARTER, CPA  
JOHN R. ASHCRAFT, CPA  
J. SCOTT KISSELBAUGH, CPA  
BRIAN S. WOOSLEY, CPA  
CHRIS R. CARTER, CPA  
CHERYLE L. BEAUCHAMP, CPA  
J. ALTON PIKE, CPA



## STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

[www.stilescartercpas.com](http://www.stilescartercpas.com)

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Members of the Board of Education  
Meade County School District  
Brandenburg, Kentucky

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Meade County Board of Education as of and for the year ended June 30, 2005, which collectively comprise the Meade County Board of Education's basic financial statements and have issued our report thereon dated October 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Meade County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Meade County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We also noted certain additional matters that we have reported to the management of Meade County Board of Education in a separate letter dated October 19, 2005.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Meade County School District, the Kentucky Department of Education and management and should not be used by anyone other than these specified parties.

*Stiles, Carter & Associates*

Certified Public Accountants  
October 19, 2005

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

THEODORE C. STILES, CPA  
BENJAMIN E. CARTER, CPA  
JOHN R. ASHCRAFT, CPA  
J. SCOTT KISSELBAUGH, CPA  
BRIAN S. WOOSLEY, CPA  
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## STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

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### Compliance

We have audited the compliance of Meade County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Meade County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Meade County School District's management. Our responsibility is to express an opinion on Meade County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Meade County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Meade County School District's compliance with those requirements.

In our opinion, Meade County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### Internal Control Over Compliance

The management of Meade County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Meade County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Meade County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Stiles, Carter & Associates*

Certified Public Accountants  
October 19, 2005



## MANAGEMENT LETTER COMMENTS

THEODORE C. STILES, CPA  
BENJAMIN E. CARTER, CPA  
JOHN R. ASHCRAFT, CPA  
J. SCOTT KISSELBAUGH, CPA  
BRIAN S. WOOSLEY, CPA  
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## STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

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Brandenburg, Kentucky

In planning and performing our audit of the basic financial statements of Meade County School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 19, 2005 contains our report on the District's internal control structure. This letter does not affect our report dated October 19, 2005 on the financial statements of the Meade County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Stiles, Carter & Associates*

Certified Public Accountants  
October 19, 2005

## MEADE COUNTY SCHOOL DISTRICT

### MANAGEMENT LETTER COMMENTS

June 30, 2005

### UNCORRECTED PRIOR YEAR COMMENTS

#### Segregation of Duties in Handling Receipts and Paying Bills – School Activity Funds

During our audit, we noted that the following schools did not comply with the segregation of duties requirements for handling receipts and/or paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

<u>School</u>	<u>Segregation of Duties Noncompliance Area(s)</u>
Meade County High School	Paying Bills
Stuart Pepper Middle School	Handling Receipts and Paying Bills
Battletown Elementary School	Handling Receipts and Paying Bills
David T. Wilson Elementary School	Handling Receipts and Paying Bills
Ekron Elementary School	Handling Receipts and Paying Bills
Flaherty Elementary School	Paying Bills
James R. Allen Primary School	Handling Receipts and Paying Bills
Muldraugh Elementary School	Handling Receipts and Paying Bills
Payneville Elementary School	Handling Receipts and Paying Bills

#### Management Response

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

## MEADE COUNTY SCHOOL DISTRICT

### MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2005

#### CURRENT YEAR COMMENTS

##### Teacher Receipt of Funds – School Activity Funds

During our audit, we noted that, at all schools, teachers do not consistently use the Teacher's Multiple Receipt Form or pre-numbered receipts as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

##### Management Response

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

##### Deposit Ticket Preparation – School Activity Funds

During our audit, we noted that Stuart Pepper Middle School did not list the amount and payer of each check on each deposit ticket as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

##### Management Response

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

##### Completion of Required Forms – School Activity Funds

During our audit, we noted that the following forms required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education were not usually completed as part of the school's operating procedures.

<u>School</u>	<u>Form(s)</u>	<u>Purpose of Form</u>
Meade County High School	Expense Report	Reimbursement of Expenses/Cash Advances
	Fundraiser Worksheet	Reconciliation of Fundraiser Activities
	Inventory Control	Monitor Profits on Concession Sales
Battletown Elementary School	Fundraiser Worksheet	Reconciliation of Fundraiser Activities
Payneville Elementary School	Purchase Order	Approval to Make Purchases
Muldraugh Elementary School	Credit Card	Document Credit Card Usage

##### Management Response

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

## MEADE COUNTY SCHOOL DISTRICT

### MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2005

#### CURRENT YEAR COMMENTS – CONTINUED

##### Vending Machine Inventory – School Activity Funds

During our audit, we noted that, at Meade County High School, Battletown Elementary School, and Muldraugh Elementary School, full service vending machine activity is not being monitored as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education. These requirements emphasize that the vendor for full-service vending machines provide an inventory reconciliation to the school.

##### Management Response

School officials will obtain a reconciliation of the vending machine activity from the vendor.

##### Attendance Incentives – School Activity Funds

During our audit, we noted that the following schools purchased items considered attendance incentives which are prohibited by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

<u>School</u>	<u>Amount</u>	<u>Fund</u>	<u>Items Purchased</u>
Stuart Pepper Middle School	\$ 205.87	Coke	Attendance Prizes and Gifts
Payneville Elementary School	\$ 320.50	General	Pizzas and Awards
David T. Wilson Elementary School	\$ 320.11	General	Food and Pizzas

##### Management Response

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

## MEADE COUNTY SCHOOL DISTRICT

### MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2005

### CURRENT YEAR COMMENTS – CONTINUED

#### Purchases for Staff – School Activity Funds

During our audit, we noted that the following schools purchased items for staff out of student funds which is prohibited by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

<u>School</u>	<u>Amount</u>	<u>Fund</u>	<u>Items Purchased</u>
Meade County High School	\$ 640.71	General	Lunch, Picture and Flowers
Stuart Pepper Middle School	\$ 337.12	General	Food and Meeting Supplies
Muldraugh Elementary School	\$ 455.00	General	Staff Luncheon

#### Management Response

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### Payment of Invoices – School Activity Funds

During our audit, we noted that, at Meade County High School, David T. Wilson Elementary, James R. Allen Primary School, and Muldraugh Elementary School, invoices were paid from a fax or a copy which is prohibited by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### Management Response

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### Presence of Vendor Invoices – School Activity Funds

During our audit, we noted that, at Meade County High School, Stuart Pepper Middle School, David T. Wilson Elementary School, Ekron Elementary School, and James R. Allen Primary School some checks were written without a supporting vendor invoice which is prohibited by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### Management Response

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

## **MEADE COUNTY SCHOOL DISTRICT**

### **MANAGEMENT LETTER COMMENTS - CONTINUED**

June 30, 2005

### **CURRENT YEAR COMMENTS – CONTINUED**

#### **Completion of Purchase Orders – School Activity Funds**

During our audit, we noted that, at Meade County High School, Stuart Pepper Middle School, Battletown Elementary School, David T. Wilson Elementary School, Ekron Elementary School, Flaherty Elementary School, and Muldraugh Elementary School, several purchase orders were dated after the vendor invoice. This is inconsistent with the purpose of a purchase order which is to obligate funds prior to purchase.

#### **Management Response**

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### **Tournament Tickets – School Activity Funds**

During our audit, we noted that Meade County High School purchased eight state basketball tournament general admission packages. Four packages were for Meade County coaches and four packages were to be repaid by the individual(s) for whom they were purchased. We noted no evidence that the school was repaid for these four ticket packages.

#### **Management Response**

The District will not purchase tickets for anyone other than coaches. Management will investigate the status of the reimbursement.

#### **Building Maintenance – School Activity Funds**

During our audit, we noted that Flaherty Elementary School paid \$720 for landscaping. *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education does not allow school funds to be used for building maintenance.

#### **Management Response**

District personnel will meet with the District's auditor and the school principals and treasurers to address this issue. The District will also conduct training on the guidelines contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

THEODORE C. STILES, CPA  
BENJAMIN E. CARTER, CPA  
JOHN R. ASHCRAFT, CPA  
J. SCOTT KISSELBAUGH, CPA  
BRIAN S. WOOSLEY, CPA  
CHRIS R. CARTER, CPA  
CHERYLE L. BEAUCHAMP, CPA  
J. ALTON PIKE, CPA



## STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

[www.stilescartercpas.com](http://www.stilescartercpas.com)

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State Committee for School District Audits  
Members of the Board of Education  
Meade County Board of Education  
Brandenburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Meade County School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents, and have issued our report thereon dated October 19, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.**

As stated in our engagement letter dated July 22, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.



### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note A to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates are those for sick leave.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the audit adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant impact on the District's financial reporting process.

### **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

### **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the

District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

*Stiles, Carter & Associates*

Certified Public Accountants  
October 19, 2005